HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Gatineau[1]

CANADA MORTGAGE AND HOUSING CORPORATION

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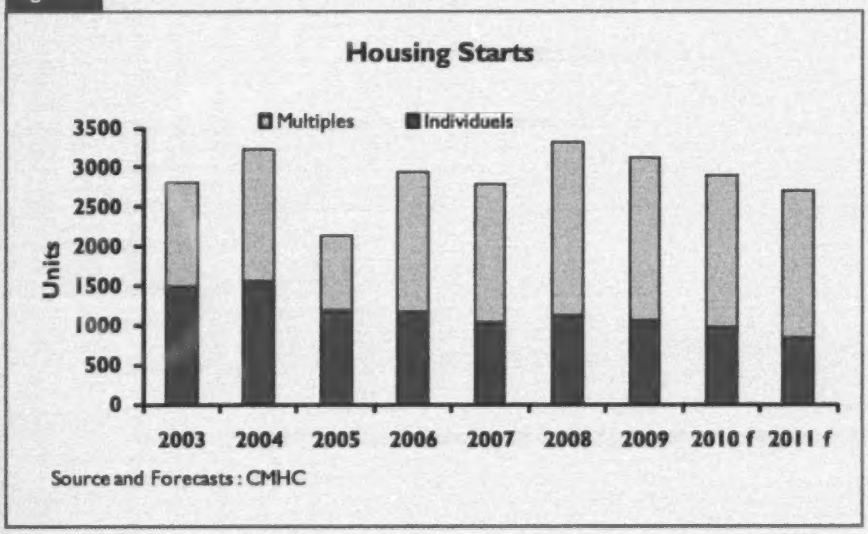
Housing market in Gatineau area expected to slow down

According to the latest forecasts released by Canada Mortgage and Housing Corporation (CMHC), sales of existing homes are expected to remain stable and residential construction is projected to decrease in the Quebec part of the Ottawa-Gatineau census metropolitan area (CMA) in 2011. In fact, after an anticipated small decline of 1.4 per cent this year, MLS® sales should remain stable in 2011, at 4,275 transactions. On the new home market, however, activity will drop by about 7 per cent this year and by another 7 per cent in 2011. This weaker outlook for residential

Figure 1



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[1] Quebec part of Ottawa-Gatineau CMA

construction is based on a shaky job market, a decline in net migration and an increase in existing home inventories in the area.

Employment

The economic recovery that began in the spring of 2009 helped regain several thousand jobs that had been lost in the area. While this rebound was based on more than one sector, it was driven by the public service. In fact, this sector not only maintained a relatively stable employment level during the recession but has also recorded over 5,500 additional jobs since the upturn began. However, a few signs of a slowdown that will affect the job market in the area can be noted, including a slower than expected recovery of the Canadian economy and a tightening of government spending. Consequently, employment in the area is bound to stagnate in the coming year.

However, the impact of stagnating employment on the housing market will likely be mitigated by demographic changes on the job market. In fact, for the past few quarters, the number of workers aged 45 years or older has decreased in favour of younger workers in the Gatineau area. This phenomenon is causing an increase in the number of people outside the labour force, but these individuals are receiving retirement income, while allowing younger workers to get jobs. Contrary to what happened in the 1990s, when the public service workforce had been reduced in order to balance the budget, the many retirements will help contain the number of unemployed persons in the area. In all, the number of jobs (168,400 in 2009 in the Gatineau metropolitan area) is expected to climb by 1,2 per cent to 170,500 in 2010 and 2011. The unemployment rate will reach 6.6 per cent this year and remain relatively stable next year.

Migration

According to Statistics Canada's migration estimates, from 2004 to 2008, the Gatineau metropolitan area attracted slightly over 11,000 people on average per year. During the same period, 8,400 people left the area annually. And, migration flows have remained relatively unchanged, with more in-migrants than out-migrants every year. This helped boost the population and the demand for housing in the area. This trend should continue over the coming years, even though net migration will decrease slightly. In fact, based on our projections, the housing market should post gains of 2,600 in 2010 and 2,100 in 2011.

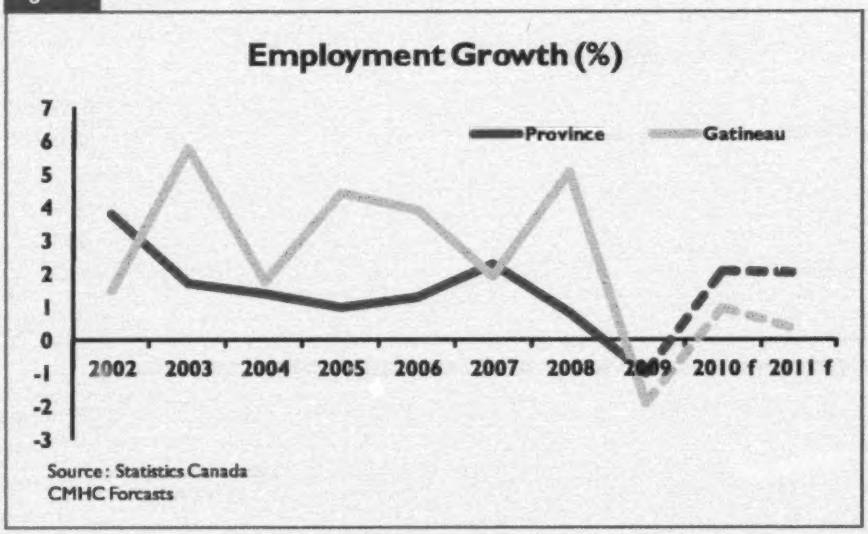
Supported by the Quebec government's migration policy aimed at increasing the number of newcomers from abroad, the area will continue to benefit from immigration. In fact, according to data from the Ministère de l'Immigration et des Communautés culturelles, in the first half of this year, about 25 per cent more immigrants stated that they intended to settle in the Outaouais region than during the same period in 2009.

As for intraprovincial migration, net migration in the Gatineau metropolitan area is expected to remain positive but weaker, on account of the slower hiring in the federal public service. In the case of interprovincial migration, particularly from Ontario, the Gatineau area will attract more households in 2011, thanks, in part, to the continued growing price gap between houses on both sides of the river, with the average price being more than $100,000 higher in the Ottawa area, and to the improved QST new housing rebate, with this tax increasing to 8.5 per cent in January 2011.

Existing home inventories

From the second quarter of 2009 to the spring of 2010, the resale market in the Gatineau metropolitan area reached one of its highest levels of

Figure 2



Source: Statistics Canada
CMHC Forcasts

activity in over 10 years. With some buyers catching up after having left the market during the recession and others wanting to make earlier-than-planned purchases to benefit from the low interest rates offered for a limited time by Canada's monetary authorities, the resale market ended up with a very large number of buyers. Consequently, even if mortgage rates have changed little since this past summer, buyers are nevertheless scarcer, and existing properties for sale are accumulating, resulting in greater competition on the new home market.

Slowing demand during the second half of the year should bring down total sales to slightly below the level recorded in 2009. In fact, transactions are expected to reach 4,275 units in 2010, compared to 4,335 units the previous year. The decrease in 2010 will be due mainly to single-detached, semi-detached and row homes—housing types that had accounted for a significant increase in sales in the second half of 2009.

In 2011, the number of properties changing hands will remain stable, at 4,275 units. While the housing market is facing the beginning of tough times, sales will remain firm, thanks to migration and the greater inventory of homes for sale. However, the market share of single-detached homes will fall slightly to the benefit of smaller, more affordable properties (condominium apartments and semi-detached and row homes).

Prices are expected to keep rising in the short term, but at a slower pace. In fact, the average price of properties sold through the MLS® will climb by 4.6 per cent in 2010. In 2011, sellers will no longer benefit from the buyer frenzy observed at the beginning of 2010. Supply will increase and listing periods will lengthen, which will weaken the advantage that sellers have held on the market for the past several years. The average price of resale homes in Gatineau will therefore reach $220,500 in 2011, up 2.3 per cent over 2010.

Housing starts to moderate in 2011

The greater supply of resale properties will affect the new home market in 2011. According to the latest data for the area, housing starts have begun to edge down. In fact, after nine months, starts show a decrease of 10 per cent. The housing type most affected by this decrease is condominium apartments. Rental units and single-detached houses are also following the same trend, but to a lesser extent. Semi-detached and row homes had, until the second quarter of 2010, escaped the downturn. However, weakening demand will have impacted the housing types in the lowest price ranges. Overall, 2010 will end with a drop of 7 per cent compared to 2009. In 2011, housing starts will continue to decline, as they should fall by another 7 per cent.

The anticipated decline in 2011 will be especially observed in the single-detached housing segment. The bleak employment outlook in the area, especially in the higher-paying economic sectors, will reduce demand for these generally more expensive dwellings. The scarcity of lots will exacerbate the situation by putting upward pressure on the final prices of new homes and therefore limit demand. Finally, the intensification trend will favour the construction of multiple-unit housing over single-detached homes. For these reasons, we believe that 975 single-detached homes will be started this year, down nearly 75 units from 2009. In 2011, a further decrease of 125 units is expected, such that starts of this type should reach 850 units.

A decrease in multiple-family housing construction is also expected. In fact, given the low volume of apartment construction since the beginning of the year, starts should fall to 1,925 units in 2010 and then to 1,850 units in 2011. The drop in 2011 will not be attributable to the same housing types as in 2010. After one year of sluggish activity, apartment construction should pick up in 2011, particularly in the case of condominium apartments.

In the rental apartment segment, starts are expected to remain low next year. In fact, the so-called "traditional" rental market will continue to attract few developers in this segment, given the strong shift to homeownership and the rising vacancy rate. In the retirement rental market segment, construction will also fall in 2011, following the probable start of construction on close to 100 units in 2010. In addition, this market is weakened by a vacancy rate of over 20 per cent, according to the results of the latest CMHC survey (February 2010).

The price increases recorded over the last decade encouraged builders to offer more semi-detached and row houses. As they are scarce on the resale market and more affordable than single-detached homes, their starts volumes have been growing steadily in the last few years. And this year will be no exception, despite last quarter's data, as such dwellings are the most sought-after, in relation to the supply on the market. In 2011, however, the pace will slow down, given the less favourable economic outlook and the fact that many consumers—typically first-time homebuyers—will have moved up

their purchases to benefit from the low mortgage rates in 2009 and 2010.

Finally, new units will be built in all sectors of the metropolitan area over the next few years. The Aylmer sector will see the most construction in 2010 and 2011, thanks to the many lots developed there. Activity in the Hull sector, limited by the scarcity of lots, will get a boost from the plan to revitalize downtown. In fact, over 140 condominium apartments are planned in 2011 as part of this project. Many dwellings will also be started in the eastern part of the city and the outlying area, given the relative affordability of these sectors.

Vacancy rate to register a small increase

The factors affecting the rental market should remain relatively the same in 2011. The movement to homeownership will cause rental market conditions to ease somewhat in 2010, while weakening job prospects and lower positive net migration will push up the vacancy rate in 2011. Even if the rental housing vacancy rate will remain low this year and in 2011, it will rise slightly. From 2.2 per cent in October 2009, the rental housing vacancy rate will increase to 2.6 per cent in 2010 and then to 2.8 per cent in 2011. The few vacancies will allow for an increase in rents in 2010. The average monthly rent should be $705 this year and $720 in 2011.

In the retirement rental market segment, the vacancy rate should drop as of 2011. Following the massive arrival of new units on the market in recent years, the market will tend to stabilize, given the continued aging of the population and the almost total lack of new construction projects.

Mortgage Rates

On September 8th, the Bank of Canada increased the Target for the Overnight Rate from 0.75 per cent to 1.00 per cent. This is the third 25 basis point increase since April 2010, when the rate was at a historical low of 0.25 per cent. With the overnight rate expected to remain flat, mortgage rates, particularly short term mortgage rates and variable mortgage rates, are also expected to remain steady at current levels.

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary Gatineau CMA Fall 2010	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market[1]							
MLS® Sales	4,603	4,193	4,335	4,275	-1.4	4,275	0.0
MLS® Active Listings	2,228	2,200	2,181	2,200	0.9	2,300	4.5
MLS® Average Price ($)	185,590	193,911	206,005	215,500	4.6	220,500	2.3
New Home Market							
Starts:							
Single-Detached	1,037	1,120	1,056	975	-7.7	850	-12.8
Multiples	1,751	2,184	2,060	1,925	-6.6	1,850	-3.9
Starts - Total	2,788	3,304	3,116	2,900	-6.9	2,700	-6.9
Average Price ($):							
Single-Detached	231,136	243,887	261,948	270,000	3.1	276,500	2.4
Semi-Detached	138,801	171,489	189,612	198,000	4.4	204,000	3.0
New Housing Price Index (% chg.) (Ottawa-Gatineau)	1.8	3.8	1.5	4.0	-	3.5	-
Rental Market[2]							
October Vacancy Rate (%)	2.9	1.9	2.2	2.6	-	2.8	-
Two-bedroom Average Rent (October) ($)	662	677	690	705	-	720	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	163,300	171,700	168,400	170,500	1.2	170,500	0.0
Employment Growth (%)	1.9	5.1	-1.9	1.2	-	0.0	-
Unemployment rate (%)	5.5	4.8	5.9	6.6	-	6.8	-
Net Migration	2,117	2,766	3,571	2,600	-27.2	2,100	-19.2

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

[1] Source: QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris®. CMHC Forecast (2010-2011)

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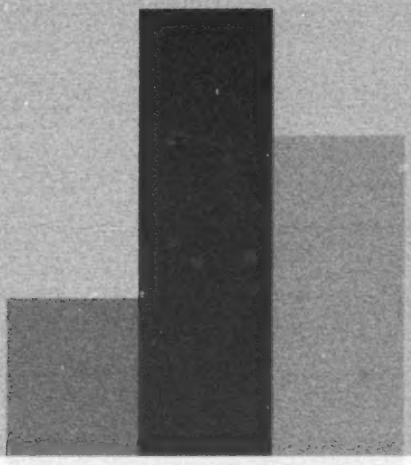

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